Adviser Musical Chairs Report

Industry research on financial adviser movement 2019
Quarter 1

AR data

Adviser Ratings

Key Findings

Privately licensed advisers have grown to 55% of all advisers in the industry, up from 41% only 12 months ago.

Essentially no new advisers were licensed this quarter compared with 200+ new advisers 12 months ago, reflecting new FASEA constraints.

Existing advisers are moving to privately owned licensees more than twice as much as to licensees owned or aligned to institutions.

There was a 25% increase in the number of ceased advisers compared to the same period last year.

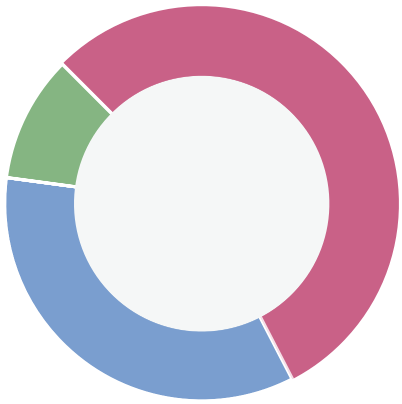
When changing from one licensee to another, 30% of advisers are de-registered for at least 1 month, representing risks and opportunities for service providers.

This research report offers insights that will help key market players, such as fund managers, life insurers, platform and software providers, to identify key focus areas to improve sales and marketing strategies. The financial planning and investment advice industry has undergone significant changes over the past five years with the implementation of the Future of Financial Advice (FOFA) reforms and the creation of the Financial Adviser Standards and Ethics Authority (FASEA). More recently, the introduction of the new FASEA requirements on education and professional standards for financial advisers and the Royal Commission into misconduct in the banking, superannuation and financial services industry changed the industry dynamics substantially. Financial advisers continuously enter and exit the industry, as well as switch from one licensee to another. This report shows some of Adviser Ratings analysis and insight into these movements, for the benefit of those providing products and services to the industry.

Privately owned licensees now dominate institutions by 55:45

As we all know, in recent years many of the large industry players in the finance industry, including CBA, NAB and Westpac have announced their intention to, or commenced some form of disengagement from the wealth management sector. While grabbing many headlines, the findings of the recent Royal Commission did little to hasten the trend that was already underway. The rivers of gold, accessible via vertical integration proved to be imagined and under-performance along with regulatory and governance issues became the norm.

As some of these institutions prepared their wealth assets for sale, they underwent rationalisation and began the process of shedding the less valuable elements of their businesses, including advisers. While not the only cause, this has helped establish the trend of advisers moving away from institutionally owned or aligned licensees, to the extent that unaligned or privately held licensees are now dominant in terms of their gross adviser numbers.



Private	14,654	54.91%
Aligned	9,264	34.71%
Institution	2,769	10.38%

Figure 1. Advisers authorised by privately held licensees now make up 54.91% of the 26,687 licensed advisers in Australia

Only ten advisers joined in 2019 Q1 95% less than PCP

As figure 2 shows, the financial advice industry continues to experience high adviser turnover in the first quarter 2019. There are high numbers of advisers leaving the industry (over 1000 or 4.12% of advisers ceased being authorised in this period), as well as switching to a new licensee. There are limited new entrants to the industry, due to the FASEA reforms relating to education and professional standards for financial advisers. Newly registered financial

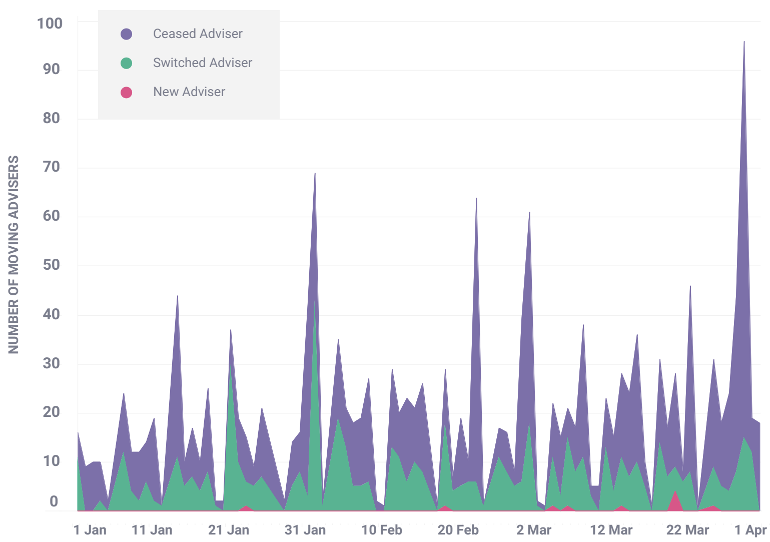


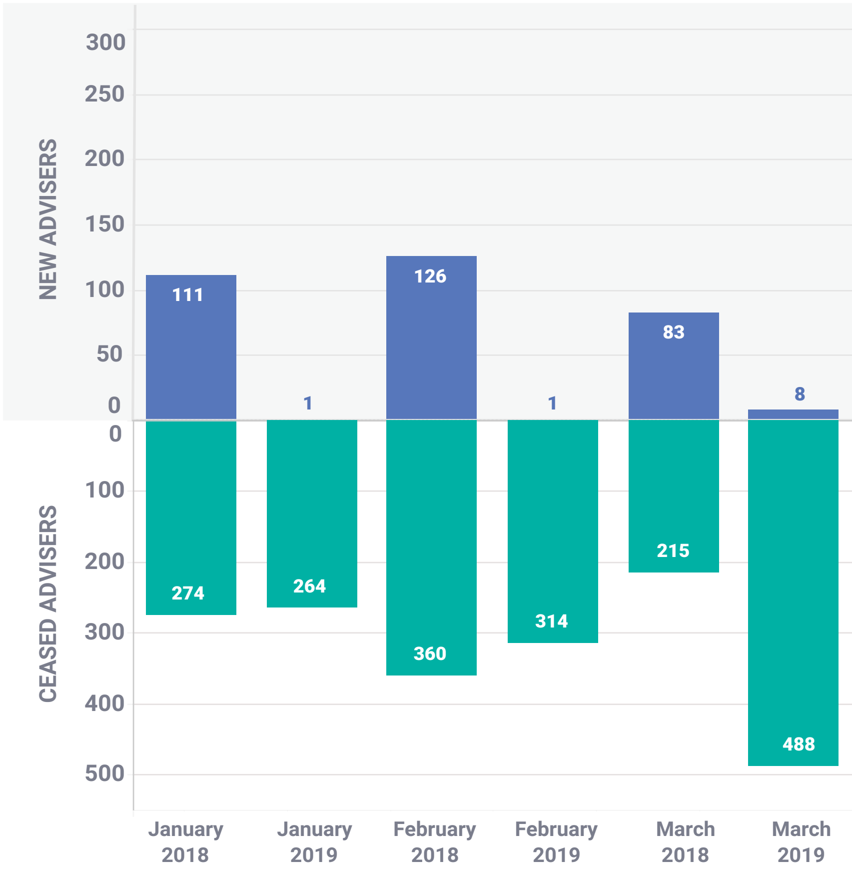
Figure 2. Adviser movement in Q1 2019

advisers need to meet these structured obligations before providing financial advice.

These FASEA obligations heralded a massive influx of new and returning adviser registrations toward the end of 2018, with nearly 4,500 advisers registered (representing half of the entire year's authorisations) in order to beat the educational requirement deadline of relevant bachelor's degree for new authorisations as at Jan 1st 2019.

This inevitably meant many advisers were merely ticking that regulatory box, giving themselves the opportunity to practice prior to the level of qualification becoming mandatory across the industry in 2024. Many of these advisers, however, may not want to practice immediately and have subsequently terminated their authorisations (at least for the time being), resulting in a 20% increase in adviser cessation in the first quarter of 2019 compared to 2018 (figure 3). It's not unreasonable to expect further residual cessation of advisers as a result of this dynamic, and the lack of new entrants means we should now have reached the top of the parabola and total adviser numbers will start to trend down.

Figure 3. Annualised comparison of new and ceased advisers



How did they get there?

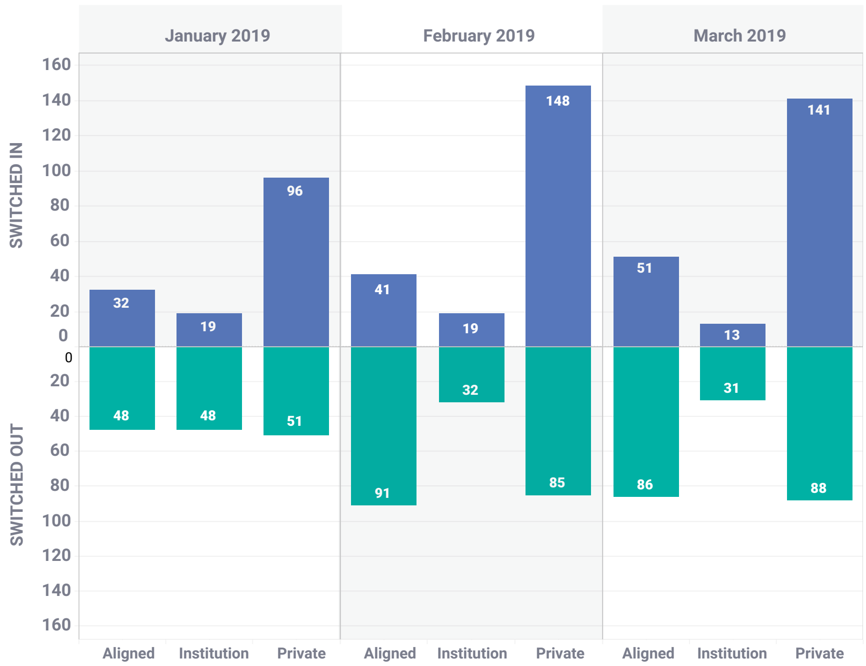
An illuminating example of the confusion the new regulatory regime has created is represented by the 10 new authorisations registered in Q1 2019. It's not clear how these advisers were registered as they do not meet new regulatory requirements regarding qualifications, and the entrance exam that they must complete within a specified time window has not been written by FASEA. Our investigations indicate that several licensees (not limited to smaller ones!) may have made some sort of administrative error leading to these authorisations. The fact that ASIC has listed them, apparently with no regard to their FASEA compliance generates some doubts about the veracity of the regulatory process. With the fires of the Royal Commission still generating heat and a supposed new "appetite for enforcement" from the regulators, licensees, advisers and their providers would do well to improve and maintain quality standards of due diligence, lest they land themselves and potentially their business partners in hot water.

Advisers favour privately owned licensees 100% more than institutions

Rather than indicate gross adviser movements, this zero-sum calculation can be used to show the attractiveness of privately held licensees for existing advisers. Figure 4 indicates that when existing advisers move to a new licensee, they are moving to the privates at a ratio of more than 2:1.

As previously mentioned, institutional rationalisation and withdrawal from the wealth sector has played a role, but the trend towards privately owned licensees is not solely driven by this factor. Along with this re-organisation, the drive to professionalise the industry, including changes to adviser remuneration (particularly conflicted commissions) and the accompanying uncertainty of on-going reforms have meant that some licensee business models are no longer as attractive as they once were. "Hand-cuff" agreements, where advisers are locked into longer term arrangements and forced to pay for broad service agreements with products they rarely use, are falling out of favour.

Figure 4. Licensee distribution of switching advisers



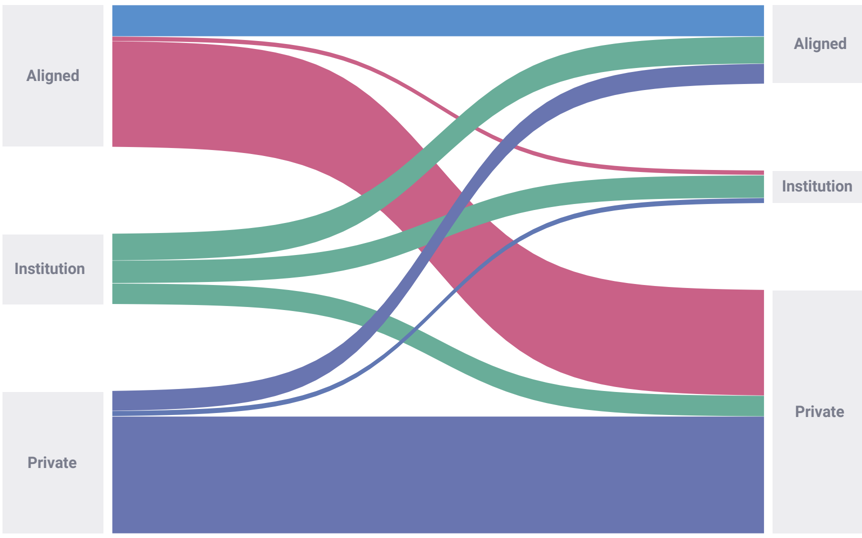
Privately owned licensees are generally more agile in most senses relative to the institutions and are actively renovating their service and value propositions. Various models are emerging but at their core is a steady unbundling of services and fees designed around flexible user-pays. These changes include rationalising advisers and practices that don't fit the new licensee business models, while also seeking new talent to resource either growth plans and/or support stronger quality, compliance and efficiency imperatives.

Meanwhile, advisers are seeking greater levels of independence than they enjoyed under the major institutions, and their movements suggest a belief that they can achieve that within the privately-owned sector.

Licensee movement - migration to privately owned licensees

A different representation of the Q1 switching adviser movement data allows us to better visualise the dominant position privately owned licensees currently enjoy as the preferred destination for adviser migration. Figure 5 clearly shows the gross adviser movement towards privately held licensees. The left-hand side of the chart shows that while a greater proportion of advisers were initially with institutional and aligned licensees (60%), the destination for switching advisers was overwhelmingly privately held licensees (70%).

Figure 5. Adviser movement by licensee types



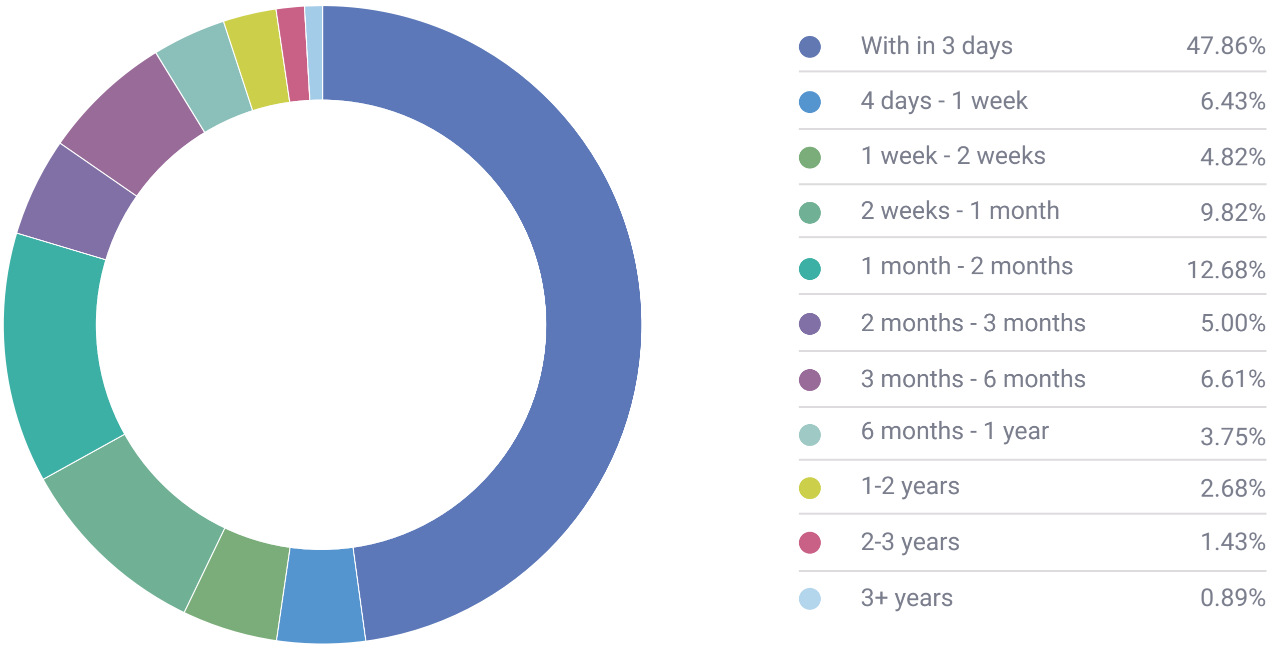
Interestingly, these is also considerable adviser movement between the privately-owned licensees. This may be due to a number of causes, natural adviser attrition or smaller licensees winding down their operations. It may also suggest that advisers do not always find what they are looking for on the first movement. Equally, privately owned licensees may be conducting better due diligence than they have previously (of both existing advisers and new applications) within tighter compliance and cultural frameworks that are leading to this turnover in this quarter.

30% of switching advisers are de-registered for 1-12 months

“Time-Out” duration of switching advisers

The choice for an adviser to switch licensees may be caused by a business imperative but it is not a decision taken lightly. Changing licensees can take months of planning. Many advisers find it difficult to leave their existing AFSL due to privacy or other dealer group requirements they initially signed up for. Fully considering available options for an adviser would mean meetings with potential suitors, many of whom are either new licensees or themselves undergoing major renovations, making the adviser’s decision that much harder. There may be many elements in transition for these destination businesses, including new business models, changes to fees, more stringent adviser due diligence, shifting demands on product manufacturers, modified workflow and administrative processes, software changes, and documentation overhaul.

Figure 6. "Time-Out" duration of advisers who have switched to a new licensee



This licensee selection and transition process can take a massive effort on the part of the adviser, and it generally happens while the adviser is still servicing their existing clients. Figure 6 shows that the majority of switching advisers complete the formality of switching licensees within three days, ensuring service continuity for their clients

Indeed, when assessing all that needs to be done, this "Time-Out" period - when an adviser is unlicensed and legally unable to give advice – is relatively short for most advisers. Adding the segments together, we can see that nearly 60% of advisers completed the transition within 2 weeks, and 80% were sorted within 2 months. Nearly all of the 560 advisers (95%) who were re-licensed in the first quarter of 2019 were unlicensed less than a year, although there is a small tail of advisers (5%) who have re-joined the industry after more than a year out. There is however, a significant proportion of advisers (30%) who are unauthorised and therefore not practising for a period of between 1 and 12 months.

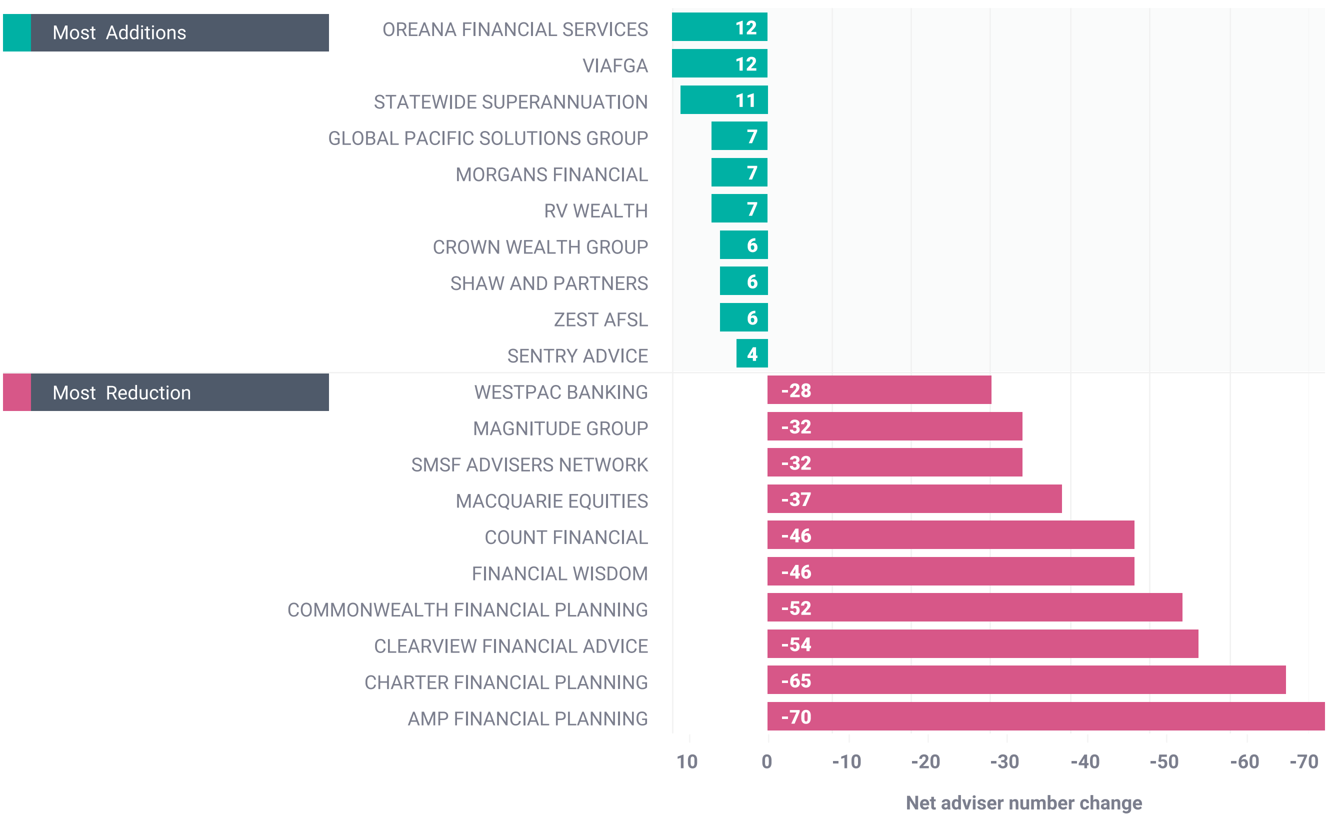
Our analysis would suggest that there is a small window of opportunity for service and product providers to engage advisers during this time-out, or just after they join a new licensee. With over two-thirds of advisers migrating to private licensees and many of these being newly established, the ability to engage an adviser with a relatively open APL is potentially greater than ever before. The short "Time-Out" duration will however limit this window and there are other practical considerations to be aware of. A simple but often overlooked challenge is how to contact advisers who are no longer using their old work email and phone number!

50%+ growth in volume for 6 of top 10 licensees adding most advisers

Licensee adviser numbers: who is adding and who is shedding advisers?

Taking a look at the additions and reductions of adviser numbers within licensees reveals further evidence of the move away from institutions. This is to be expected, but digging a little deeper into the numbers reveals more nuanced inclinations. Figure 7 shows the top ten licensees who added and reduced adviser numbers in Qtr 1 2019. The net adviser number change was calculated based on the sum of new entrants and switched-in advisers net the sum of ceased and switched-out advisers per licensee. The first thing to note is the magnitude of the difference in the size of the numbers of additions and reductions. For the licensee that has added the most advisers – the biggest number of additions is only 12 advisers. Contrast that with the top licensee that has reduced numbers, which is AMP FP, who shed 70 advisers in the quarter. You'll note that this number is almost equal to the entire top ten list of licensees adding advisers.

Figure 7. Licensees with most additions and removals of advisers



Figures 8 and 9 tend to confirm the formerly mentioned trend of advisers preferring smaller, more agile licensees. The only two non-private licensees in the list adding adviser numbers are Morgans (adding 7, for a total of 502) and Shaw and Partners (6; 192). These small additions would make very little material difference to the administration or businesses of these licensees. Contrast this with most of the other licensees in the list (all privates) who are brand new licensees, or who have seen significant proportional growth in their adviser numbers.

Figure 8. Licensees adding the most advisers (NET adviser number change)

Rank	Name	Type	State	Total practices	Total current advisers	% Adviser gain[1]
1	OREANA FINANCIAL SERVICES	Private	VIC	10	22	120%
2	VIAFGA	Private	NSW	1	14	600%
3	STATEWIDE SUPERANNUATION	Private	SA	1	14	366.7%
4	GLOBAL PACIFIC SOLUTIONS GROUP	Private	QLD	3	7	N/A
5	MORGANS FINANCIAL	Institution	QLD	3	502	1.4%
6	RV WEALTH	Private	NSW	2	12	140 %
7	CROWN WEALTH GROUP	Private	NSW	19	30	25%
8	SHAW AND PARTNERS	Aligned	NSW	1	192	3.2%
9	ZEST AFSL	Private	QLD	1	6	N/A
10	SENTRY ADVICE	Private	WA	24	57	7.6%

[1] The advisers gain percentage is the ratio of net number of adviser gain per licensee to the previous total adviser numbers per licensee before the adviser movement. Licensees who have N/A adviser gain percentage are the ones that had no registered advisers before movement (for calculation).

Figure 9. Licensees shedding the most advisers (NET adviser number change)

Rank	Name	Type	State	Total practices	Total current advisers	% Adviser loss
1	AMP FINANCIAL PLANNING	Aligned	NSW	580	1322	-5%
2	CHARTER FINANCIAL PLANNING	Aligned	NSW	278	669	-4.6%
3	CLEARVIEW FINANCIAL ADVICE	Aligned	NSW	59	129	-26.3%
4	COMMONWEALTH FINANCIAL PLANNING	Institution	NSW	10	665	-6.5%
5	COUNT FINANCIAL	Aligned	NSW	172	362	-12.6%
6	FINANCIAL WISDOM	Aligned	NSW	146	331	-10 %
7	MACQUARIE EQUITIES	Institution	NSW	3	178	-26.8%
8	MAGNITUDE GROUP	Aligned	NSW	36	98	-24.6%
9	SMSF ADVISERS NETWORK	Private	VIC	450	1028	-4.9%
10	WESTPAC BANKING	Institution	NSW	3	325	-7.9%

The contrast with the list of licensees shedding advisers could not be more stark. All these licensees bar one are institutionally owned or affiliated. They are large and all had at least 100 advisers at the end of 2018, most in the many hundreds. Their continued reduction in size, while adviser numbers are steady or growing point to the further fragmentation of the licensee segment.

As our analysis delved even further, we extracted another interesting find. Of the 560 switching advisers this quarter, 39 of them switched into 15 licensees who are just newly registered in the same period. It will be interesting to see further analysis in the coming months to see whether these numbers grow, or whether perhaps "self- licencing" becomes too much for some advisers, and they switch back into formerly established licensees, and if so, which licensee size is favoured.

While there have been few new advisers added to the industry this quarter, these contrasting numbers and our switching figures show the trend in growth of smaller privates (including self-licensing), which we would expect to continue in the short to medium term.

This means there are increasing numbers of licensees and advisers open to finalising their own APLs, and implementing their own contracts and dealer group requirements. The challenge will be to locate and unearth them in a fluid environment that is yet to bed down a single new model, and likely will not do so for some time, if at all.

New Licensee Growth

New advice licensees were approved over the last 12 months at roughly three times the volume of licensees being de-registered. We anticipate this will slow down, particularly as the wait times for ASIC approval approach 9-12 months. This is further compounded by the challenges of obtaining professional indemnity cover, which may get tougher depending on the reaction from PI insurers following results of class actions against the major institutions and major compensation claims before AFCA.

Glossary of terms

New adviser
A new entrant who is newly registered as a financial adviser on ASIC's financial adviser register (FAR) in the sample period.

Ceased adviser
A financial adviser whose AFSL Authorisation with a licensee has ceased during the sample period.

Switched adviser
An existing or previously licensed financial adviser who is switching to a new practice/ licensee in the sample period.

Switched-in
Refers to the movement of an existing or previously licensed adviser moving to a new practice/licensee.

Switched-out
Refers to the movement of an existing or previously licensed adviser moving from a practice/licensee.

Moving adviser
A joint name of new, ceased and switched financial advisers.

Institutionally owned licensee
Organisations that are wholly owned subsidiaries of major "parent" institutions with diversified business models beyond providing financial advice only, where the advisers are directly employed. These institutions may be banks, super funds or stockbroking firms.

Institutionally aligned licensee
Organisations that are partly owned by or tied exclusively to a parent institution. Advisers are generally not directly employed but operate as authorised representatives.

Privately owned licensee
Organisations that are independent of any major institution. Advisers may be directly employed or authorised representatives.

"Time-Out" duration
The period between when an adviser is deregistered on FAR from their "source" licensee and re-registered on FAR at their "destination" licensee. This period can range from several days to more than 12 months. During this period the adviser is not legally allowed to provide personal financial advice and cannot continue to service their clients.

AR data

AR data provides insights to the financial services eco-system. We operate as a stand alone service to assist platforms, insurers, and other product manufactures reach advisers they want to work with.

Consolidating ASIC information with our global partners and proprietary methods, our data is the most valuable, up to date, and accurate in the market. The musical chairs service consists of this report, and the underlying data on all advisers switching, entering, and exiting. (For example in quarter one 2019, this service captures 1600 adviser movements)

Email us today to access the quarter one underlying data.

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